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ABSTRACT

This speech outlines the interdistrict disparities in levels of financial support leading to court decisions that have invalidated State school finance systems. The author discusses alternative financial plans in light of these court decisions. The central issue centers around whether or not property taxes should be relieved, and if so, to what extent. Also discussed is the extent to which disparities between districts should be realigned. (Several pages may be light.) (JF)

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THE EMERGENCY IN SCHOOL FINANCE*

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One of the most critical domestic problems confronting the Nation today is the financial plight of our public schools. This situation has been building up since World War II. It suddenly came to a head with the Serrano and other court decisions which held that existing programs of financing education are unconstitutional under equal protection provisions of the 14th Amendment.

Although it took court action to bring the matter to national attention, the problem has been facing school finance officers for many years. And it extends deeper than expenditures to provide equal educational opportunities. Two other factors contribute significantly to the dilemma in school financing: (1) the vast disparity existing in the levels of financial support provided by the States and by the school systems within the States, and (2) the sheer magnitude of the problem.

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The disparity of educational support among the States is well known. The span between the most and the least annual expenditure is almost $1,000 per pupil. A significant difference also exists among local school districts. Statistics show some affluent districts allocate twice as much of their tax dollars to their schools than poorer districts and at half the effort.

On top of this, one must consider the extent of the overall problem. There are some 17,000 school districts in this country with an estimated 90,000 schools. And within these schools are 2.3 million teachers and administrators and countless others--janitors, bus drivers, etc.--involved in our educational system. Think of the size of this payroll, of construction costs, equipment and materials expenditures. . .But I don't have to tell you. You are the people who cope with the problem. You know its scope better than I.

Yet this does not end your dilemma. To make matters still worse, everything is getting more expensive. Since World War II, the cost of educating a child in this country has risen from around $300 to a 1972-73 high of over $900 a year.

School finance has become a major crisis. The very quality of public education, which is the lifeline of our country and which is perhaps more important than ever before, is being threatened.

I pondered for some time trying to decide how to gently--and with some measure of humor--begin a speech on school finance. I came to the conclusion that there is nothing humorous to be said about the subject.

School finance is a grim, serious problem--one that all of us will be wrestling with in the months ahead.

Throughout the United States we have long looked to the local property tax as the main source of financing public primary and secondary education. As a result, soaring school costs and soaring property tax rates now threaten both our communities and our schools. They threaten communities because property taxes--which more than doubled in the ten years from 1960 to 1970--have become one of the more oppressive and discriminatory of all taxes, hitting most cruelly at the elderly and the retired. They threaten schools because hard-pressed voters are rejecting new bond issues at the polls

The problem has been given even greater urgency by recent court decisions. In seven States--California, Texas, Minnesota, New Jersey, Wyoming, Arizona, and Kansas--either Federal or State courts have held the existing systems of financing education to be unconstitutional with regard to the Federal or State constitutions or both.

Thus in his State of the Union address on January 20, 1972, President Nixon described the scope and urgency of the problem, pointing out that it is not simply fiscal but has broad and compelling implications for the character and quality of education throughout the United States. Its solution will require the best thinking of every citizen.

We currently spend nearly $50 billion annually to support the public schools. Of this total, 41 percent comes from the States, 7 percent from the Federal Government, and 52 percent from local sources. Almost all of the local share is raised by property taxes.

Heavy reliance on the property tax to support the public schools,

which goes back to the Nation's beginnings, has its advantages. Property taxes are a stable source of revenue. Avoiding taxation is difficult. Most of the services the property tax finances flow directly and visibly to the local community. And the property tax is familiar.

However, the local property tax also has serious shortcomings. It represents a heavy burden on housing. It discourages the rehabilitation of deteriorating areas, especially in the highly populated sections of central cities where rehabilitation is most critically needed. It affects decisions by private industry concerning where a new plant or factory will be located. Property tax revenues expand more slowly than the needs they finance. The property tax is also "regressive"--that is, it places a relatively heavy burden on those least able to pay--the elderly and others on fixed incomes and the urban poor and middle classes. And, because the taxable value of local property varies so widely, it results in wide variations in the amounts of revenue available to different schools districts, irrespective of how willing local citizens may be to tax themselves.

Wide variations in school expenditures exist within States and among States. These variations often result from the differences in financial resources available to different communities. They may also depend on the degree of support different communities choose to provide for education. Although research has not demonstrated the precise relationship between the amount of money a community spends on education and the quality of its schools, it is assumed that larger expenditures generally produce better education.

During the 1969-70 school year, estimated expenditures per pupil in average daily attendance in public elementary and secondary schools ranged from a low of $503 in one State to a high of $1,420 in another. Mississippi's estimated expenditures per pupil averaged $534. Fifteen of the States and outlying areas spent more than $1,000 per pupil, while 21 spent less than $800.

Within the States, disparities are even greater. In a representative western State, the wealthiest district spends $2,414 per pupil, the poorest district $569. In a mid-western State, the range is $2,295 to $391; in Mississippi, the range is $825 to $283. In most States, the highest spending districts outspend the lowest by 100 percent or more.

Disparities also separate central cities and the areas that sourround them. And these differences are exacerbated by the higher costs of urban life and by the greater burden the cities must carry, both to educate their disadvantaged populations and to pay for welfare assistance, drug prevention programs, police protection, and the like.

As property taxes climb, citizens are increasingly unwilling to pay for the necessary costs of education. In recent years, over half of local referenda on increasing property tax rates and school bond issues have failed at the polls.

Recently several major studies have searched for more equitable and efficient approaches to school finance. The work of three groups has been of particular importance--the long-established Advisory Commission on Intergovernmental Relations, the National Educational Finance Project supported primarily by the U.S. Office of Education, and the

President's Commission on School Finance appointed by President Nixon in March of 1970. Also, work on revising school finance programs is going on in at least 40 States.

As a result of its study on State aid to local government in 1969, the ACIR recommended that the States assume substantially all fiscal responsibility for financing the public schools, with local districts given (a) limited authority to add on enrichment expenditures, and (b) assurance of continued policy-making authority. According to ACIR, such a plan would help attain equality of educational opportunity and ease the substantial and growing pressure of the school tax on owner's property.

The ACIR reaffirmed this position at its 1971 Conference on the Public Schools:

> "Lifing the burden of school financing from local units of Government would, the Commission feels, be the best way to assume equality of educational opportunity and at the same time ease the pressure on the property tax."

Another major study, conducted for the Office of Education by a large group of finance experts directed by Roe Johns of the University of Florida, also concluded that:

> "Great inequities exist in the availability of funds for education in the school districts of nearly every State. These variations are primarily the result of the tremendous differences in the abilities

of local districts to finance education and the methods used by the States to allocate their revenues for school support. The time has come to seek new directions in the processes of raising and allocating revenues if we are to achieve the goal of equality in education."

A few months ago the President's Commission on School Finance, which was headed by former Defense Secretary Neil McElroy and on which I had the honor to serve, made its report. It recommended that the States assume most of the costs of education to eliminate the wide differences in the quality of schools between rich and poor neighborhoods and proposed substantial increases in Federal spending for education, mostly in the form of incentive payment to States which reform their own programs.

The Commission said State Governments should finance "substantially all" of the non-Federal outlays for public grade and high schools with local districts permitted to add up to 10 percent of the state allocation.

The responsibility for pulling together the findings of all these reports has been delegated to a recently established Task Force on School Finance, headed by U.S. Commissioner of Education Marland. When this task force completes its job, the administration is expected to make its recommendations for legislation for Federal spending to assist the States to assume the costs of education. This will probably be done late this year or early next year.

The entire school finance problem has been put in particular focus

by the August 30, 1971, decision of the California Supreme Court in Serrano vs. Priest. In that case, the court determined that the California public school financing system, with its substantial dependence on local property taxes and resulting wide disparities in school revenue, is discriminatory and violates the equal protection clause of the 14th Amendment, because it makes the quality of a child's education a function of the wealth of his parents and neighbors. Because the California court was reviewing the propriety of a demurrer, and remanded the case to the trial court, the decision has not been appealed to the United States Supreme Court.

The first such school finance case to be heard by the U.S. Supreme Court is Rodriguez vs. San Antonio School District. On December 23, 1971, a three-judge Federal district court in Texas determined that the current system of financing public education in Texas discriminates on the basis of wealth by permitting citizens of affluent districts to provide a higher quality education for their children, while paying lower taxes. Holding that this constituted a denial of equal protection under the 14th Amendment, the court ordered the reallocation of funds available for financial support of the school system within two years. The decision has been appealed to the Supreme Court and was heard on October 12. The Supreme Court opinion will be given on this case within the next few months. If the Supreme Court sustains the judgment of the lower court, school finance reform will move forward at a very rapid pace. More than 40 cases of a similar nature are pending in 31 States. If, on the other hand, the court fails to sustain the Rodriguez case, the pace of reform

action will be slowed somewhat. However, since State, as well as Federal, constitutions are being contested, the finance reform effort will not die.

Thus the signs of impending crisis mount. Millions of people and thousands of jurisdictions will be directly affected, and long-established practices will be challenged. Moreover, each of these goals can be achieved in numerous and various ways, and the pursuit of one may interfere substantially with the accomplishment of the others. Fundamental and far-reaching issues will have to be dealt with.

Property taxes currently provide about $40 billion in annual revenues, primarily at the local level. Roughly half of this amount is derived from taxes on residential property and most of the remainder from taxes on commercial property. Of the $40 billion total, approximately one-half goes for the support of education. These facts raise certain important questions.

Do we provide relief only for residential property taxes or do we also relieve commercial property taxes?

Home-owners are especially pressured by any increase in the property tax, since they have no one to whom they can pass all or part of the burden, and those who rent are similarly, though indirectly, affected. On the other hand, while some districts, including many suburbs rely heavily on residental property taxes to finance schools, other districts, including many cities, raise substantial revenue from commercial property sources. Thus if only residential property taxes were ended, as a condition for Federal or State aid, many subuubs would be relatively more heavily subsidized than the cities.

Should relief be aimed only at the portion of the property tax spent for education or at all expenditures financed by these taxes?

Although funds from property taxes are usually thought of in connection with support of education, they are also used to cover the costs of such other services as welfare assistance and police and fire protection. In some instances funds from property taxes are earmarked for particular purposes, but often (especially in many cities) the money thus collected is lumped together with all other revenues of the county or municipality. If relief extended only to those property taxes devoted to education, local or State Governments would be tempted to reinflate the property tax in response to the heavy demand for the other public services. Tax relief would thus be brief and ephemeral, and in the long run the tax burden on property owners might increase.

Should relief be granted only for local property taxes or should it be extended to cover property taxes levied at all levels within the State?

A major alternative facing many States is to finance education and perhaps other public services by enacting a statewide property tax. While this approach would contribute to making educational expenditures more equal among the individual districts within the State, it would not provide property tax relief as such.

Whatever form of property tax relief might be adopted, should the Federal Government seek to mandate it?

Many experts contend that property tax relief will not materialize unless appropriate legislation requiring it is enacted at the Federal level. Yet such a mandate by the Federal Government would limit the flexibility of the States and localities to develop their own revenue

plans to cover what they see as their particular educational and general expenditure requirements. One alternative under our Federal system would be for the national Government to provide incentives for property tax relief but not formally require it by law.

If the local property tax burden were lifted, where else would the schools get the revenues they require?

Our schools cannot do without the money now received from the local property tax. Moves to eliminate this source of funds thus carry with them the obligation to provide replacement revenues--and to do so in ways that impose less of a burden than the property tax on the poor, the elderly, citizens on fixed incomes, and in general on all the taxpayers of modest means who bear the most onerous part of the property tax load. At the same time, sound tax policy dictates that such replacement revenues be raised in a manner that is easily and fairly administered and that has the potential to adjust--as the property tax does not--to cover future requirements.

Several revenue sources are available, including higher rates of Federal or State income taxes, new or expanded sales taxes, and the value-added or "transactions" tax now used by many industrial nations. Once again, the choice is not a simple one, since each principal alternative can in turn be developed in several different and conceivably conflicting forms. It would in any case seem clear that the characteristics of the source of replacement revenue--its relative freedom from regressivity, its flexibility, and whether it will be collected at the Federal, State, or local level--will have important effects on decisions

as to how the money that is raised should be subsequently spent.

Many observers see property tax relief as being one element in a necessary reform of our system of educational finance. This proposition provokes some fundamental challenges. The new system would of course have to be "fair and adequate," as the President has specified. There would have to be a clear and acceptable definition of the roles to be played by Federal, State, and local Governments in school support and operations. Such matters are as difficult and entangled as those having to do with the relief of property tax, and they raise such issues as these:

Have and to what extent should we seek to diminish the disparities arising from the varying levels of affluence among districts within a State ?

This issue has been given particular urgency by the recent court rulings in several States saying that present educational finance systems are unconstitutional. The Federal response to these rulings could be the enactment of legislation that supports and supplements them--or it could be Federal legislative restraint, allowing the judicial system itself to clarify the constitutional requirements and to adjudicate solutions proposed by individual States and localities. However, any such judicial solutions would doubtless be slow to come and might very well be tied to particular State and local proposals calling for only minimal compliance with the basic law.

To come at the matter from another direction, States and localities can be expected to seek special additional resources to achieve intra-state equalization, and these resources may be available only at the

Federal level. If equalization within the States is to be based on Federal authority and resources, the question again arises: should such equalization be required under new legislation or should it merely be encouraged until the courts have made more definitive rulings?

Assuming the desirability of equalization within States, is the necessary consequence a removal of primary educational finance responsibility from local districts?

Reports from the National Educational Finance Project and the Advisory Commission on Intergovernmental Relations both recommend that responsibility for educational finance rest primarily with the States rather than with local districts. One of their arguments is that such concentration would be necessary to achieve and sustain equalized expenditures. A counter argument holds that State assumption of responsibility for education finance would inevitably diminish the effective control of local educational authorities (and the proposition has in fact been opposed or defeated on such grounds in the past). Defenders of the transfer respond that control over funds and control over educational policy are separate matters and that local districts could therefore retain control over the important policy decisions.

Would intrastate equalization permit local districts to provide additional supplementary funds?

Some of those who have studied the educational finance picture have suggested that local school districts should have the liberty to devote extra funds over and above the equalized State average in order to promote exemplary and innovative practice. Others have said that unless such extra spending is permitted, affluent districts may simply opt out of the public school system and purchase the services they desire in pri-

vate schools. Opponents of extra spending point out that unless safeguards were carefully spelled out, the mathematical fact is that such supplementary funds would disequalize expenditures among the districts and create another wealth-discriminatory pattern of educational support.

Again assuming that equalization among districts should be pursued, should educational finance reform also encompass equalization among the States?

Though not as exaggerated, disparities are as common from State to State as they are among districts within the States. Some of these differences are attributable to costs differentials and some result from differing levels of educational services. A considerable portion, however, is due to differences in basic wealth. Interstate equalization is frequently justified on grounds that education has a significant spillover effect--that a child educated in one State may spend his adult life in another. On the other hand, even partial equalization among the States would almost certainly require additional total revenues, thus cutting into the goal of overall tax relief.

How can central city school districts obtain their fair share of the resources they need to deal with their special educational and financial problems?

Any new system of educational finance that seeks to be truly fair and adequate must take account of the special problems of our central cities. America's urban centers are beset by eroding tax bases, higher costs, and large numbers of poor people needing an array of welfare and related services. Outsiders often ignore this "municipal overburden" and conclude that the cities must be relatively wealthy because of the level of revenues they receive. With appearance at odds with reality,

a flat per-pupil equalization scheme would not help the cities much at all. In fact, they might even lose some of the revenue they now have. In any case, the central cities present a special problem in any search for fair and adequate equalization.

How should a revamped school finance system make provision for aid to non-public schools?

Non-public schools educate more than ten percent of the Nation's elementary and secondary school children. Many of these schools are in serious danger of being forced to close. The problem is especially acute in urban America, where well over half of the non-public school students are enrolled.

In New York and Chicago about a fourth of all elementary and secondary school students attend non-public schools, and in Philadelphia one-third. In ten of the Nation's largest cities, non-public school enrollments account for almost 20 percent of the total. Obviously, if the central city non-public schools were to close in sizable number, the public school system would be hard pressed.

Federal constitutional requirements may tightly constrain the degree and character of public aid to non-public schools. Such assistance might legally be expanded by methods such as those employed in Title I of the Elementary and Secondary Education Act. Another possibility would be Federal incentives to States to assume greater responsibility for non-public schools, and a third option would be compensating families of students attending non-public schools through vouchers or tax credits.

Local control of education is among the most fundamental of American

traditions. Local districts have long been given a large degree of discretion in setting the level of support for their schools and in determining such aspects of educational policy as hiring, salaries, transportation, and most portions of the curriculum.

Would local control disappear with the onset of equalization and State assumption of school financing?

Some observers contend that the degree of local control would necessarily be severely diminished. They equate financial responsibility with administrative responsibility, arguing that the two cannot be separated. On the other hand, several independent researchers have submitted findings that indicate there is very little correlation between financial and administrative responsibility. These studies strongly imply that State financial responsibility and meaningful local control are not at all mutually exclusive.

It has in fact been suggested that with the acquisition of responsibility for financing, the States might feel impelled to relax certain presently established controls over the curriculum and to grant incentive awards in order to encourage competition and innovation among districts. Federal law requires that no school district receiving Federal financial assistance shall discriminate against the intended beneficiaries of that assistance on the gounds of race, color, or national origin. For the most part, Federal education programs have involved direct relationship between the Federal Government and local school districts. What are the implications for the enforcement of non-discrimination guarantees in any large-scale restructuring of the methods of financing elementary and secondary

education?

Finally, there are the inevitable questions about the effect of new methods of educational financing on existing programs supported by the Federal Government. These effects will be fairly obvious and straightforward in some instances, but in others considerable analysis will be required. Some obvious questions in this area are:

Should ESEA, Title I, which provides special support for disadvantaged school children, be incorporated in any plan of educational financing or retained as a separate program?

Is there any further justification for the SAFA program, providing special assistance to school districts affected by Federal installations, if State equalization payments and large-scale Federal support are provided for all districts?

Such are some of the complex and difficult issues that confront school administrators and finance officers. I have no doubt that these problems will be with us for some time to come. But I am equally confident that they will be resolved and that you here today will play an important role in achieving this goal. I know of your ability to cope with difficult situations (you have handled them before) and I know of your commitment to our schools and our children (this, too, has been proven).

For these reasons, I look with confidence toward the future. I am convinced that the current emergency can be met, and that we--Federal, State and local school officials--can create a new system of education that will in every way be better, more just, and more equitable for our children.